

INTERNAL REVENUE SERVICES

Number: **INFO 2001-0118**

Release Date: 6/29/2001

Index Number: 501.07-00

April 13, 2001

XXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXX

Attention: xxxxxxxxxxxx

Dear Mr. xxxxx:

Thank you for your letter dated March 13, 2001, concerning xxxxxxxxxxxxxxxxxxxx
xxxxxxxxxxxxx They want help with their application for tax-exempt status.

According to your constituent's letter, xxxxxxxxxxxxxxxxxxxxxxxxxxxx applied for
tax- exempt status with the IRS. However, because it is a dance club for singles that is
open to the public, we consider it a business ordinarily operated for profit. Therefore, it
is generally not eligible as a public charity.

However, the organization may be eligible as a social club under section 501(c)(7) of
the Internal Revenue Code (the Code). Social clubs are membership organizations
where individuals join together to provide themselves with recreational or social facilities
on a mutual basis, without further tax consequences. Because that is the purpose, the
organization's income sources are limited to membership dues.

Social clubs must maintain a membership list for the IRS's record-keeping
requirements. For example, Revenue Procedure 71-17, 1971-1 C.B. 683, describes the
records required when non-members use a club's facilities and the circumstances when a
host-guest relationship is assumed.

Because social clubs are membership organizations, they can receive only a certain
amount of income from non-members without losing their tax-exempt status under
section 501(c)(7). They can receive up to 35 percent of their gross receipts, including
investment income, from sources outside their membership. They can also receive no
more than 15 percent of gross receipts from non-member use of club facilities and/or
services. If an organization's income exceeds one or both of these limitations, then it
may still be able to show that "substantially all" of its activities are for pleasure,
recreation, and other nonprofit purposes, and therefore, keep its tax-exempt status.

I hope this information is helpful. If you or your constituent want to discuss this further, please call xxxxxxxxxxxxxxxxxxxx, xxxxxxxxxxxx, of this office at xxxxxxxxxxxx.

Sincerely,

/s/ Tom Miller

Steven T. Miller
Director, Exempt Organizations